

DIRECT TESTIMONY AND EXHIBITS OF
DANIEL P. HUNNELL II
ON BEHALF OF
THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF
DOCKET NO. 2019-281-S
IN RE: APPLICATION OF PALMETTO UTILITIES, INC. FOR
ADJUSTMENT (INCREASE) OF RATES AND CHARGES, TERMS AND
CONDITIONS, FOR SEWER SERVICE PROVIDED TO CUSTOMERS IN
ITS RICHLAND AND KERSHAW COUNTY SERVICE AREAS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Daniel P. Hunnell II. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the South Carolina Office of Regulatory Staff (“ORS”) in the Water Operations Department as a Senior Regulatory Analyst.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I am a graduate of DeVry University of Columbus, Ohio, with a bachelor’s degree in Business Operations. I completed the continuing education program sponsored by the National Association of Regulatory Utility Commissioners (“NARUC”) and Michigan State University and the Advanced Regulatory Studies Program sponsored by the Institute of Public Utilities and Michigan State University.

I began my career in the utility industry in 1995 when I joined Pennsylvania American Water Company (“PAWC”), a subsidiary of American Water Works Company Inc., as a Collection and Billing Representative. In 1999, I participated on a project team,

1 which facilitated the implementation of a new customer information software program. In
2 2000, I was promoted to Billing Supervisor. In this position, I managed a team of
3 employees that conducted the customer billing and billing-related functions for the eastern
4 districts of PAWC (approximately 300,000 customer accounts). In 2001, I was promoted
5 to the Compliance Department as a Compliance Specialist. In this position, I acted as a
6 point of contact for the Pennsylvania Public Utility Commission's Bureau of Consumer
7 Services. In 2008, I was transferred to the American Water Service Company, Inc. I was
8 assigned to the rates and regulation function and promoted to Financial Analyst II. In 2014,
9 I was promoted to a Financial Analyst III, and, in 2016, I was promoted to a Principal
10 Regulatory Analyst. In December 2019, I joined the South Carolina Office of the
11 Regulatory Staff.

12 **Q. HAVE YOU TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF**
13 **SOUTH CAROLINA ("COMMISSION")?**

14 **A.** No, but I have sponsored testimony in multiple base rate cases on behalf of PAWC
15 and West Virginia American Water Company. In addition, I have prepared or assisted in
16 the preparation of rate and rate-related applications presented to the Maryland Public
17 Service Commission, the Virginia State Corporation Commission, the Kentucky Public
18 Service Commission, the New Jersey Board of Public Utilities, and the New York
19 Department of Public Service.

20 **Q. WHAT IS THE MISSION OF THE OFFICE OF REGULATORY STAFF?**

21 **A.** ORS represents the public interest as defined by the South Carolina General
22 Assembly as follows:

23 [T]he concerns of the using and consuming public with respect to public
24 utility services, regardless of the class of customer, and preservation of

continued investment in and maintenance of utility facilities so as to provide reliable and high-quality utility services.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to set forth ORS's findings and recommendations resulting from ORS's examination of the rate increase application ("Application") submitted by Palmetto Utilities, Inc. ("PUI" or "Company"). Specifically, I will focus on the following areas:

- PUI's compliance with the Commission rules and regulations;
- ORS's review of the Company's vacancy survey reports;
- ORS's adjustments to revenues;
- ORS's position related to PUI's offer to phase in the rate increase granted in this case over a three-year period;
- ORS's customer growth calculation;
- ORS's proposed uncollectible debt percentage;
- ORS's recommendation that the Company complete a cost of service study prior to its next rate case;
- ORS's recommendation that the Company study the feasibility of transitioning to volumetric rates;
- ORS's review of the Company's request to add a charge for tampering with or damage to Company facilities and equipment to its tariff;
- ORS's review of the Company's request for authority to limit the Company's liability in circumstances involving the interruption or failure to provide service to remedies available under Commission regulations;

- ORS's review of the Company's request for the Commission to approve the modification of the Company's rate schedule to add the Company's existing policy for the gross-up of developer contributed assets;
- ORS's review of PUI's balance sheet Account 114 – Utility Plant Acquisition Adjustment; and
- ORS's recommendation for rate treatment of the excess tax expense related to the Tax Cut and Jobs Act of 2017 that PUI has collected from its ratepayers.

Q. ARE THE FINDINGS OF YOUR REVIEW CONTAINED IN THIS TESTIMONY AND ACCOMPANYING EXHIBITS?

A. Yes. My testimony and the attached exhibits detail ORS's findings and recommendations.

Q. WAS THE REVIEW PERFORMED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes. The review to which I testify was performed by me or under my supervision.

Q. PLEASE EXPLAIN HOW YOU COMPILED INFORMATION FOR YOUR TESTIMONY AND EXHIBITS.

A. I used information provided by PUI in its Application, supplementary data provided by the Company during our review, subsequent discovery and additional information provided by PUI during our business office compliance review and facility site inspections. I also reviewed PUI's financial statements and performance bond documents submitted to the Commission.

Q. PLEASE PROVIDE AN OVERVIEW OF THE LOCATIONS, SERVICE TYPES, AND CUSTOMER BASE SERVED BY PUI.

1 **A.** PUI is a public utility providing wastewater collection and treatment services to
2 customers in Kershaw and Richland counties. PUI's operations are classified by NARUC
3 as a Class A wastewater utility according to sewer revenues reported on its application for
4 the test year ending August 31, 2019 ("Test Year"). As of the end of the Test Year, PUI
5 provided sewer collection and treatment services to 27,905 residential, commercial,
6 industrial and multi-family customers. At the end of February 2020, PUI provided service
7 to 28,082 residential, commercial, industrial and multi-family customers.¹

8 **Q. PLEASE EXPLAIN THE CORPORATE STRUCTURE OF PUI.**

9 **A.** PUI is owned by Ni South Carolina Utilities, Inc, a subsidiary of Ni Pacolet
10 Milliken Utilities, LLC, which is a subsidiary of Pacolet Milliken, LLC.

11 **Q. PLEASE EXPLAIN THE BUSINESS OFFICE COMPLIANCE REVIEW.**

12 **A.** Exhibit DPH-1 provides a summary of the ORS Business Office Compliance
13 Review completed by ORS and a summary of the sewer collection and treatment systems
14 inspected by ORS on March 16, 2020. During the Business Office Compliance Review,
15 ORS reviewed PUI's office records to determine compliance with Commission rules and
16 regulations. Required operator logs are kept by PUI and general housekeeping items
17 including system entry points, access roads and signage were found to be satisfactory
18 during the ORS review. ORS found that PUI is complying with all Commission
19 requirements.

20 During ORS's inspection, the sewer collection and treatment system operated
21 adequately and in accordance with South Carolina Department of Health and
22 Environmental Control ("DHEC") rules and regulations. In response to ORS Water

¹ Company response to Water Operations Request No. 23

Operations Request No. 31 the Company indicated it had reported eighteen sanitary sewer overflows since the start of the Test Year, but these have not resulted in any Notices of Violation from DHEC. In addition, the collection system did not appear to experience any substantial inflow and infiltration during the Test Year. ORS visited the Spears Creek Wastewater Treatment Plant and confirmed the recently constructed assets including the Spears AB clean baffle, upgrades to the solids handling system and the Bridgecreek Lift station were complete and used to provide service to customers. ORS reviewed documentation related to the sewer line relocation projects such as the Hardscrabble Road relocation and Clemson Road widening projects and previewed the operations of the Company's GIS mapping system. The sewer line relocations and GIS Mapping system are complete and in-service.

Q. PLEASE EXPLAIN THE STATUS OF THE PERFORMANCE BOND FOR PUI.

A. PUI has a current performance bond for sewer operations on file with the Commission. The bond is secured by an Irrevocable Letter of Credit from Bank of America as surety for \$350,000. Based on the expenses from the Test Year and using the criteria set forth in S.C. Code Ann. Regs. 103-512.3.1 (2012), ORS determined that the face amount of PUI's bond should remain at \$350,000. ORS requests that the Commission continue to require PUI to maintain its performance bond in the amount of \$350,000 as it is in the public interest to maintain a bond that satisfies the criteria as set forth in S.C. Code Ann. § 58-5-720.

Vacancy Surveys

Q. PLEASE EXPLAIN WHAT A VACANCY SURVEY IS AND WHY IT IS IMPORTANT A UTILITY COMPLETES THEM ON A REGULAR BASIS.

1 **A.** A vacancy survey is completed to investigate situations where an occupant of a
2 property is using or receiving utility service without applying or paying for the service. It
3 is important utilities investigate these situations on a regular basis for two reasons. First, to
4 ensure the utility is receiving payment for the services it is providing; thus, limiting the
5 potential for lost revenue. Second, to ensure the occupant of the property does not receive
6 a large unaffordable “make up” bill for the period between when they took occupancy of a
7 property and when they apply for utility service.

8 **Q. DID ORS VERIFY THE COMPANY HAS A VACANCY SURVEY POLICY?**

9 **A.** Yes, PUI’s responses to ORS’s discovery requests detailed an acceptable vacancy
10 survey policy.²

11 **Q. DID ORS EVALUATE THE VACANCY SURVEY POLICY?**

12 **A.** Yes. PUI’s vacancy survey policy indicates the Company will complete vacancy
13 surveys on a regular basis including follow up audits of properties previously reviewed and
14 found to be vacant. The policy indicated compliance with Commission regulations
15 involving termination of service to a property found to be occupied. Finally, the policy
16 indicated the Company issues make-up bills to customers who are found to be receiving
17 utility service without first applying for service, thus reducing the potential for lost revenue.
18 ORS determined that until approximately October 2019, the Company was completing
19 vacancy surveys on a regular basis. In preparation for the ORS Business Office Compliance
20 Review, PUI was asked to provide a copy of its most recent vacancy survey to allow ORS
21 to verify the results of the survey. The Company advised that the most recent survey was
22 completed in October 2019, which it had provided in response to interrogatory request AIR

² Response to AIR Second Set; Question 50 and Water Operations Request No. 17

2.50. PUI further advised that it had not completed a vacancy survey since October 2019 because the Company was unable to fill its vacant Billing Field Technician position. Therefore, ORS was unable to verify the accuracy of the Company's most recent vacancy survey because the data was based on October 2019 activity.

Service Revenues

Q. PLEASE EXPLAIN THE TEST YEAR REVENUE AS CALCULATED BY ORS.

A. "The fundamental principle in determining rates is the matching principle. Unless there is a matching of costs and revenues, the test year is not a proper one for fixing just and reasonable rates. The inclusion of costs without matching revenues may produce excessive rates. The inclusion of revenues without matching costs may deny the utility reasonable rates. The relationship between costs and revenues for the test period used, whether historical or projected, and the validity of that relationship, constitutes one of the most vital steps in the determination of just and reasonable rates."³ To reduce regulatory lag and consistent with ORS's examination, ORS updated PUI's expenses and rate base through February 2020. In order to match revenues with rate base additions and changes in Company expenses, ORS calculated pro forma present and proposed revenue which relied on PUI data for the actual number of customers and equivalent residential customers ("ERCs") by class as of the end of February 2020.⁴ The actual number of customers and ERCs as of the end of February 2020 by class are shown in Exhibit DPH-6.

Exhibit DPH-2 reflects the ORS calculated PUI's Test Year revenue, as adjusted, of \$22,568,873. This calculation includes miscellaneous revenue for PUI (*See* Exhibit

³ Review of Utility Ratemaking Procedures; Report to the Iowa General Assembly; Iowa Utilities Board, January 2004; Section III, Page 6

⁴ Company response to Water Operations Request No. 23

DPH-4). In addition, ORS adjusted miscellaneous revenue in the amount of (\$61,881) to remove rent from other wastewater property (account 534). ORS made a revenue adjustment of \$183,991, to reflect ORS's analysis using the customer billing determinates provided by the Company. These revenue adjustments are reflected in ORS witness Seale's Adjustments No. 1A and 1B. Exhibit DPH-2 reflects rates and charges which include ORS's proposed expense adjustments as detailed by ORS witness Seale's Exhibit CLS-2. The total ORS calculated pro forma revenue requirement after ORS adjustments is \$23,558,873. ORS calculates a monthly charge in the amount of \$54.49 is required to produce the overall revenue requirement, which translates to a 4.39% rate increase.

Q. PLEASE EXPLAIN EXHIBIT DPH-3.

A. Exhibit DPH-3 illustrates ORS's calculation of the pro forma proposed revenue requirement reflecting the actual number of customers and ERCs provided by PUI at the end of February 2020 and the Company's proposed monthly charge of \$66.62. This calculation demonstrates the revenue that the Company would experience should 100% of the Company's proposed increase be granted using the Company's actual number of customers at the end of February 2020. ORS calculated PUI's proposed increase at the Company's proposed rate would be \$28,631,242, or \$251,151 more than the pro forma proposed revenue shown in Exhibit B; Schedule B; page 1 of the Company's Application.

Q. PLEASE DISCUSS PUI'S PROPOSAL TO PHASE IN THE RATE INCREASE OVER A PERIOD OF THREE YEARS.

A. The Company has offered in the Application Appendix 1 to phase-in its proposed increase over a three-year period. ORS supports the Company's proposal to phase-in any increase authorized by the Commission. Further, the Company has not requested, and ORS

recommends, that no carrying costs be added to the proposed phase-in of the increase. The Company proposed in the Application Appendix 1 an “Alternative” in lieu of a three-year phase-in of rates. The complex Alternative proposed by the Company for discussion purposes only lacks transparency and would violate the fundamental principle of matching costs to revenues. ORS recommends the Commission reject the Alternative proposed by the Company.

Customer Growth Calculation

Q. PLEASE EXPLAIN ORS’S CUSTOMER GROWTH CALCULATION.

A. To capture additional revenues and expenses generated by customers which may be added to the Company’s system, ORS included adjustments for customer growth. In keeping with the matching principle, the customer growth factor was determined by calculating the difference between the total number of customers at the end of February 2020 and the average number of customers during the period of February 2019 to February 2020 and dividing the result by the average number of customers during the period of February 2019 and February 2020. As shown in Exhibit DPH-5, the projected growth rate is 1.385%. The customer growth factor is reflected in ORS witness Seale’s adjustment Nos. 8 and 22.

Uncollectible Expense Percentage

Q. PLEASE EXPLAIN ORS’S PROPOSED UNCOLLECTIBLE DEBT PERCENTAGE.

A. Uncollectible expenses are those dollars associated with bad debt. In Exhibit DPH-7, ORS calculates the uncollectible expense percentage in the amount of 1.78% based on a five-year historical average of net write offs to revenues for the period of 09/01/2014 to

08/31/2019. PUI provided this data in response to interrogatory request AIR 1.31. The five-year average was used to smooth out the anomalous uncollectable expense the Company has experienced over the last five years. The corresponding adjustments to uncollectible expense are detailed in ORS witness Seale's adjustment Nos. 2C and 19 and are reflected in ORS witness Seale's Exhibit CLS-2.

Cost of Service

Q. PLEASE EXPLAIN THE COMPANY'S CURRENT RATE DESIGN.

A. The Company's current rate design was approved by the Commission in the Company's last rate case. *See* Commission Order No. 2018-155, pages 25-27 in Docket No. 2017-228-S. The Company's current rate design utilizes the Uniform Contributory Loading Guidelines ("Guidelines") set out in Appendix A to DHEC Regulation R.61-67. The Guidelines are used to calculate hydraulic loading factors for non-residential customers. The hydraulic loading factor for residential customers is 300 gallons per day ("GPD"). A single-family equivalency ("SFE"), otherwise known as an ERC, is based on the residential customer loading factor.

Q. PLEASE EXPLAIN THE CONCERNS EXPRESSED BY CUSTOMERS ABOUT PUI'S CURRENT AND PROPOSED RATE DESIGN.

A. Many of the Company's customers have expressed concerns about the Company's proposal to continue its current rate design of a flat charge per ERC. The primary concern of customers is the current and proposed rate design of a flat charge per ERC allocates to every residential customer the same amount of cost regardless of the number of household occupants. Second, customers expressed concerns that the current and proposed rate design does not properly allocate costs between residential and non-residential customer classes.

Q. DID PUI CONDUCT A COST OF SERVICE STUDY (“COSS”) IN PREPARATION OF THIS RATE CASE?

A. No. During discovery ORS inquired if the Company had performed a COSS or any other type of analysis to support its proposed rate design.⁵ The Company responded that no COSS or any other type of analysis had been performed to inform the proposed rate design.

Q. ARE YOU AWARE OF ANY STATE JURISDICTIONS THAT REQUIRE A CLASS A WASTEWATER UTILITY TO FILE A COSS ON A REGULAR BASIS?

A. Yes, in Pennsylvania Code § 53.53; Exhibit D; Section VIII. Rate Structure and Cost of Service requires all Class A Water and Wastewater Utilities to file an updated fully-allocated COSS as part of any base rate case filing if an interval of three (3) years has passed between a previous COSS and the historic test year date of the current filing.⁶

Q. HAS THE COMMISSION MADE ANY RECENT RULINGS RELATED TO FLAT RATE DESIGN FOR WASTEWATER SERVICE?

A. Yes, the Commission, in Order No. 2020-306, stated “flat rates for sewer service are burdensome to Blue Granite’s customers who have low water usage, who only have one or two people in a household, who are senior citizens on fixed incomes, and who are low and moderate income customers.” In addition, the Commission ordered Blue Granite Water Company (“Blue Granite”) to conduct a COSS prior to its next rate case and to provide both the Commission and ORS with a copy of this study.

Q. WHAT IS ORS’S RECOMMENDATION REGARDING A COSS?

⁵ [REDACTED]

⁶<http://www.pacodeandbulletin.gov/Display/pacode?file=/secure/pacode/data/052/chapter53/s53.53.html&searchuniktkeywords=53.53&origQuery=53.53&operator=OR&title=null>

1 **A.** ORS recommends the Commission require PUI to conduct and file a COSS to
2 coincide with the historic test year of the Company's next base rate case. ORS also
3 recommends that the Company should incorporate the COSS results in its feasibility and
4 benefit analysis. Both the COSS and the feasibility analysis may inform future rate design
5 proposals and address customer concerns related to equity and adequacy of PUI's rates.

6 A COSS is essential to determine the proper rate design for any utility to determine
7 which costs need to be recovered, the associated revenue requirement and how much costs
8 should be recovered from each customer class. First, the COSS determines the customer
9 classes. Customers with homogeneous characteristics are grouped together as a customer
10 class (i.e. residential, commercial, industrial). Second, the COSS determines the demand
11 placed on the sewer system by each customer class. Each customer class will place a
12 different demand on the utility system and usage is different among the customer classes
13 (i.e., residential typically uses less than commercial or industrial). Residential customers
14 tend to consume utility service during peak periods, thereby placing greater per unit cost
15 on the system than commercial or industrial consumers who typically operate at a stable
16 level of demand. Third, a COSS allocates each and every item of utility cost and assigns
17 the costs to the customer classes based upon engineering, operating, economic and legal
18 principals. The COSS may provide the utility with visibility into the rate of return by
19 customer class and the profitability of each rate class. A COSS is a critical tool which
20 should be used by the utility, Commission, interested stakeholders, and customers to assess
21 the efficacy and equity of the existing and proposed rates.

22 An example of how a COSS would assist customers and the utility is the rate design
23 for dump station customers. PUI, serves approximately 57 dump station customers (683

1 annualized ERCs). These dump station customers are charged the same monthly charge
2 per ERC as residential and commercial customers. The costs associated with the dump
3 station may be less because the dump station customers do not utilize the Company's
4 collection system, only the wastewater treatment facilities. However, the dump station
5 customers could be a significant driver of the Company's costs associated with electric
6 power, chemicals and waste disposal due to the type of wastewater discharged from dump
7 station customers into the treatment facility. It is this type of cost causation review that
8 would be reflected in the COSS.

9 **Q. IN DOCKET NO. 2019-290-WS, WHAT WAS THE COMMISSION'S POSITION**
10 **RELATED TO VOLUMETRIC RATE DESIGN FOR WASTEWATER RATES?**

11 **A.** Blue Granite was directed by the Commission to investigate the feasibility of
12 conversion of the Company's flat rate sewer rate design to a volumetric rate design within
13 the same time frame as to when Blue Granite files its next rate case. Additionally, in Order
14 No. 2020-306, the Commission stated "it is reasonable and just for the Commission to find
15 and to order that Blue Granite should obtain water usage, or volumetric water consumption,
16 data from entities providing water service to Blue Granite's sewer-only customers so that
17 this information may be used in the development of a just and reasonable volumetric sewer
18 service rate methodology to be reviewed, and subject to approval, by the Commission in
19 its next rate case."⁷ Additionally, the Commission found "that it is just and reasonable to
20 order that, within one hundred twenty (120) days from the date of this Decision, Blue
21 Granite shall provide to the Commission a Report on its progress to obtain water usage, or
22 volumetric water consumption, data from other entities providing water service to Blue

⁷ Docket No. 2019-290-WS; Order No. 2020-306; Section VII; Subsection 10; pages 126-127

Granite's sewer-only customers, as well as the cost of installing flow meters. The Report must be filed in the Docketing Management System (DMS) for this Docket and served upon all parties in accordance with S.C. Code Ann. Reg. 103-830.1 and applicable rules.⁸

Q. WHAT IS ORS'S POSITION IN REGARD TO PUI INVESTIGATING THE TRANSITION TO A VOLUMETRIC RATE DESIGN?

A. ORS recommends the Commission require PUI to investigate the feasibility of conversion of the Company's flat rate sewer rate design to a volumetric rate design within the same time frame as to when the Company files its next rate case. In addition, as it did in Docket No. 2019-290-WS, ORS recommends the Commission require PUI to obtain water usage, or volumetric water consumption, data from entities providing water service to its customers so that this information may be used in the development of a just and reasonable volumetric sewer service rate methodology to be reviewed for possible approval by the Commission in its next rate case. ORS also recommends the Commission require that, within one hundred twenty (120) days from the date of the Order Ruling on the Application in this case, PUI provide to the Commission a Report on its progress to obtain water usage, or volumetric water consumption, data from other entities providing water service to its customers as well as the cost of installing flow meters.

Addition of a Tampering Charge

Q. PLEASE RESPOND TO PUI'S REQUEST TO ADD A TAMPERING CHARGE TO THE TARIFF.

A. PUI proposed that it be permitted to impose a charge not to exceed \$250 per occurrence where a customer has tampered with or damaged the Company's facilities or

⁸ Docket No. 2019-290-WS; Order No. 2020-306; Section VII; Subsection 11; page 127

equipment. The proposed tariff language is set out in paragraph 13 of Exhibit A Pages 5 and 6 of the Company's Application. The Company provided a reasonable cost justification in its Application. The Commission has approved similar language for other regulated water and wastewater utilities. *See*, e.g., Order No. 2019-314 in Docket No. 2018-82-S and Order No. 2014-207 in Docket No. 2013-275-WS. ORS does not object to the addition of a Tampering Charge.

Addition of Limitation of Liability Language

Q. PLEASE ADDRESS PUI'S REQUEST TO ADD TARIFF LANGUAGE RELATED TO LIMITATION OF LIABILITY FOR INTERRUPTION OR FAILURE TO FURNISH SERVICE.

A. PUI requested Commission approval of tariff language to limit the Company's liability of the utility, its officers, employees and agents for damages arising out of the interruption of service or the failure to furnish service. ORS determined the Company inadvertently cited to the incorrect Commission regulation in its Application Exhibit A, page 6 of 6. In response to an ORS discovery request, the Company acknowledged the error and provided the correct regulation to ORS which is S.C. Code Ann. Reg 103-514.⁹ The Company should be required to file a corrected Application Exhibit A to reflect the correct Commission regulation.

The Commission approved the inclusion of similar limitation of liability language for Carolina Water Service, Inc. in Order No. 2018-345(A).

ORS does not object the addition of the Limitation of Liability language to PUI's tariff. Furthermore, ORS clarifies the remedies and protections in S.C. Code 103-551 and

⁹ Response to Water Operations Request No. 14

the Commission Customer Relations regulations established in Article 5, Sub article 4 are applicable and reasonable remedies to customers for interruption of service and apply to this tariff provision.

Addition of a Tax Multiplier to Contributions in Aid of Construction

Q. PLEASE ADDRESS PUI'S REQUEST TO ADD TARIFF LANGUAGE TO INCORPORATE A TAX MULTIPLIER FOR CONTRIBUTIONS IN AID OF CONSTRUCTION.

A. PUI proposes to add tariff language to incorporate a Tax Multiplier to Contributions in Aid of Construction ("CIAC"), whether in kind or cash. The language PUI proposes related to the Tax Multiplier for CIAC is consistent with language previously approved by the Commission for PUI's tax multiplier in Order No. 88-311, issued March 23, 1988, in Docket No. 96-376-S and the terms of the settlement agreement filed in Docket No. 2017-381-A. ORS verified the Company is currently calculating the gross-up of CIAC using the appropriate methods.¹⁰

Q. DOES ORS AGREE THAT PUI SHOULD CONTINUE TO USE THE RATE OF 8.5% IT IS CURRENTLY USING FOR THE GROSS UP FOR PROPERTY CALCULATIONS AFTER THE CONCLUSION OF THIS RATE PROCEEDING?

A. No. The Company is currently using the rate of 8.5% for property contributions, based on the net present value ("NPV") method of calculating the Tax Multiplier for CIAC. However, the inputs of the NPV method include capital structure components, which are to be adjusted in this rate proceeding. The most accurate NPV rate should be reflected in the Tax Multiplier. ORS does not object to the Company's request to add a Tax Multiplier

¹⁰

for CIAC; however, the Company should be required to utilize the capital structure approved by the Commission in this rate proceeding to calculate the NPV tax multiplier percentage on property contributions.

Review of Balance Sheet Account 114: Utility Plant Acquisition Adjustment

Q. WHAT ARE THE NARUC UNIFORM SYSTEM OF ACCOUNTS (“USOA”) DEFINITION AND INSTRUCTIONS FOR BALANCE SHEET ACCOUNT 114?

A. 114. Utility Plant Acquisition Adjustments

A. This account shall include the difference between (a) the cost to the accounting utility of utility plant acquired as an operating unit or system by purchase, merger, consolidation, liquidation, or otherwise, and (b) the original cost, estimated, if not known, of such property, less the amount or amounts credited by the accounting utility at the time of acquisition to accumulated depreciation, accumulated amortization and contributions in aid of construction with respect to such property.

B. This account shall be subdivided so as to show the amounts included herein for each property acquisition and the amounts applicable to each utility department and to utility plant in service and utility plant leased to others (See Accounting Instruction 21).

*C. The amounts recorded in this account with respect to each property acquisition shall be amortized, or otherwise disposed of, as the Commission may approve or direct. [emphasis added]*¹¹

Q. WHAT DOES NARUC USOA ACCOUNTING INSTRUCTION NO. 21 STATE?

A. NARUC USOA Accounting Instruction No. 21 establishes how a Class A Wastewater System is to properly record utility plant and the costs of an acquisition when utility plant constituting an operating unit or system is acquired by purchase, merger, consolidation, liquidation or otherwise to its regulated books and records. The proper accounting for Account 114 is established in Section B, subsection (6) of Accounting Rule No. 21 which states “the amount remaining in account 104 – Utility Plant Purchased or

¹¹ National Association of Regulatory Commissioners 1996 Uniform System of Accounts for Class A Wastewater Utilities

Sold, shall then be closed to account 114 – Utility Plant Acquisition Adjustments.” Exhibit DPH-8 provides a complete copy of NARUC USOA Accounting Instruction No. 21.

Q. WHY DID ORS REVIEW BALANCE SHEET ACCOUNT 114 UTILITY ACQUISITION ADJUSTMENT?

A. The Company is required to file as part of the Application a Balance Sheet. ORS reviews all schedules contained in the Application. Recorded on PUI’s Balance Sheet is \$95,623,890 in Balance Sheet Account 114 (“Account 114”) Utility Plant Acquisition Adjustment (“UPAA”).¹²

Q. DID PUI PROVIDE A DETAILED DESCRIPTION OF THE \$95,623,890 RECORDED TO ACCOUNT 114?

A. Yes. [REDACTED]. The reconciliation appears to indicate \$51,759,216 associated with PUI was recorded to Account 114; \$43,733,075 associated with Palmetto of Richland County (“PRC”) was recorded to Account 114; and \$131,599 related to 1710 Woodcreek Farms, LLC also was recorded to Account 114.

Q. HOW DOES THE AMOUNT OF UPAA RECORDED TO ACCOUNT 114 COMPARE TO PUI’S RATE BASE?

A. In Exhibit B, Schedule F, PUI calculated pro forma proposed rate base to be \$94,669,629. The pro forma rate base is \$954,261 less than the \$95,623,890 PUI has recorded in Account 114.

Q. DOES PUI ADDRESS ACCOUNT 114 IN THE APPLICATION OR IN DIRECT TESTIMONY?

¹² PUI’s Application; Docket No. 2019-281-S; Exhibit B; Schedule A; Page 1 of 17; Line 12

A. Company witness Walsh briefly addressed Account 114 in his direct testimony related to the PRC acquisition in which he stated “Accounting Instructions 21.B(1-5) is inapplicable, and thus there is no amount remaining in Account 104 which is required to be closed to Balance Sheet Account 114 as a utility plant acquisition adjustment.”¹³

Q.

■

Q. WAS ORS ABLE TO VERIFY THAT PUI RECORDED BALANCE SHEET ACCOUNT 114 IN A MANNER CONSISTENT WITH THE NARUC UNIFORM SYSTEM OF ACCOUNTS?

A. No. NARUC USOA establishes Account 114 is the proper account for a wastewater utility to record a UPAA on its regulated accounting books and records, the definition of a UPAA and the accounting instructions for properly calculating a UPAA. The USOA instructions for Account 114 do not identify any exceptions or indicate that assets, other than a UPAA, should be recorded to Account 114. Generally Accepted Accounting

¹³ Docket No. 2019-281-S; Direct Testimony of Gary E. Walsh, page 5; lines 5-7

1 Principles (“GAAP”) may offer a different elucidation of Account 114, but the
2 Commission has ordered PUI to maintain its accounting books and records in accordance
3 with NARUC USOA.¹⁴

4 NARUC USOA Account 114, Section C establishes the amounts recorded in this
5 account with respect to each property acquisition shall be amortized, or otherwise disposed
6 of, as the Commission may approve or direct. The transactions recorded by the Company
7 in Account 114 appear to be comprised of transactions completed by the parent company
8 and not transactions completed by PUI. The transactions related to PUI and PRC do not
9 appear to have been calculated in accordance with NARUC USOA Accounting Rule No.
10 21 as evidenced by the fact the amounts of UPAA recorded to Account 114 far exceed the
11 contract purchase prices of PUI and PRC. Also, Company witness Walsh’s statement in
12 his direct testimony that there was no amount remaining in Account 104 to be closed to
13 Account 114 as a UPAA after the recording of the PRC acquisition indicates the amount
14 recorded to Account 114 associated with PRC was not PUI calculating a UPAA in
15 accordance with NARUC USOA, but transactions calculated by and pushed down from the
16 parent or another subsidiary. Regardless of the source of these transactions this
17 Commission has historically not allowed recovery of amounts recorded to Account 114,
18 *See, e.g., Georgia Water and Well*, Order No. 2004-175 in Docket 2003-295-W; *Carolina*
19 *Water Service, Inc.*, Order No. 2008-855 in Docket No. 2006-92-WS; *Chem-Nuclear*
20 *Systems, LLC.*, Order No. 2001-630 in Docket No. 200-366-A. ORS recommends the
21 Commission prohibit PUI rate recovery of the amount recorded to Account 114 and require

¹⁴ Order No. 2018-123; Docket No. 2017-228-S; Section IV Conclusion; Item No. 3; Page 26

PUI to dispose of the balance in Account 114 associated with PUI and PRC from its regulated books and records.

According to an organizational chart provided by PUI, 1710 Woodcreek Farms, LLC is a separate sister subsidiary of PUI and is owned by Ni South Carolina Utilities, Inc. 1710 Woodcreek Farms, LLC is not a regulated utility. The fact 1710 Woodcreek Farms, LLC is a separate sister subsidiary makes the combining of its assets with those of PUI inappropriate for ratemaking purposes. Therefore the \$131,599 recorded to Account 114 related to 1710 Woodcreek Farms, LLC should not be recorded to PUI's balance sheet and should be removed for ratemaking purposes. ORS witness Parcell discusses the impact of the UPAA on the Company's capital structure and provides a recommendation to protect PUI's customers from the negative consequences related to acquisitions.

Rate Treatment of the Excess Tax Expense Related to the Tax Cuts and Jobs Act of 2017

Q. PLEASE EXPLAIN THE IMPACTS OF THE TAX CUTS AND JOBS ACT ON THE COMPANY'S CURRENT RATES APPROVED IN ORDER NO. 2018-155, IN DOCKET NO. 2017-228-S.

A. On December 22, 2017, Public Law No. 115-97 was signed into law by the President. The short title of this law is the Tax Cuts and Jobs Act ("TCJA"). Pursuant to the TCJA, effective January 1, 2018, various provisions of the Tax Reform Act of 1986 (the governing tax law in the United States prior to the effective date of the TCJA) were repealed or amended. One of the many modifications to the Tax Reform Act of 1986 resulting from the passage of the TCJA is a reduction in the corporate Federal Income Tax rate. Specifically, the TCJA reduces the Federal Income Tax rate from 35% to 21%.

1 Full cost recovery of PUI's federal corporate income tax rate is imbedded in PUI's
2 current monthly flat rate of \$52.10 per ERC, which was approved in Commission Order
3 No. 2018-155, in Docket No. 2017-228-S. As a regulated utility, PUI is allowed an
4 opportunity to earn a return sufficient to attract capital investment, after it has paid its
5 federal and state taxes. Effectively, the customer pays PUI's tax bills. Federal taxes,
6 however, are not flowed through rates on a dollar for dollar basis, rather the amount of the
7 utility's tax expense that a customer must pay is determined in advance of the utility's
8 actual tax payment during a general rate proceeding. During the ratemaking process, the
9 federal income tax expense component of a utility's rates is accounted for through a gross
10 up of the utility's net income. Now that the TCJA is in effect, the gross up performed during
11 PUI's last general rate case and implemented in the rates approved by the Commission in
12 Order No. 2018-155 does not accurately reflect the reduced federal corporate income tax
13 rate. Thus, PUI has been charging customers since January 1, 2018 for federal corporate
14 income tax expense it has not and will not incur.

15 Commission Order No. 2018-308, in Docket No. 2017-381-A requires a review of
16 the impacts of the TCJA in a utility's next rate proceeding. ORS witness Sullivan reviewed
17 the effects of the TCJA and determined that since January 1, 2018, PUI has charged
18 customers \$1,278,253 of excess corporate income tax expense as shown in Exhibit DFS-2.
19 Therefore, PUI has received a substantial monetary benefit from its over collection of tax
20 expense. Since January 1, 2018 the Company has collected a significant amount of excess
21 tax expense from its customers and has had full use of those funds interest free for a period
22 of over two years. This over collection of tax expense represents an extraordinary and
23 substantial, non-recurring reduction in PUI's tax expense that should be flowed back to the

Company's customers. Furthermore, to allow PUI to keep revenue designated through rates to pay the federal corporate income tax expense it has not and will not ever incur may violate the matching principle and result in rates that are not just and reasonable.

Q. EXPLAIN ORS'S RECOMMENDATION FOR RATE TREATMENT OF THE \$1,278,253 OF EXCESS TAX EXPENSE PUI HAS COLLECTED FROM ITS RATEPAYERS.

A. In Commission Order No. 2018-308, the Commission required all regulated utilities, including PUI, to establish a regulatory liability to track and defer the impacts resulting from the TCJA. PUI did not establish a regulatory liability as directed by the Commission. ORS recommends the Commission require PUI to establish a regulatory liability in the amount of the excess tax expense (\$1,278,253) and to flow back to customers the regulatory liability through the establishment of a temporary TCJA decrement rider or negative surcharge. ORS recommends the temporary TCJA decrement rider or negative surcharge be in effect for a period of thirty-six (36) months or until such time as PUI has flowed back to its customers the total balance of the regulatory liability. The establishment of the regulatory liability and TCJA decrement rider or negative surcharge is a fair and equitable method to return the regulatory liability for two reasons. First, it returns to PUI's customers the amount attributed to the excess tax expense PUI has collected from customers but will never be obligated to pay. Second, unlike a one-time bill credit provided to the customer, the TCJA decrement rider or negative surcharge safeguards the integrity of PUI's cash flow.

As of the end of February 2020, PUI had 28,082 customers or 34,290 ERCs. ORS recommends a monthly TCJA decrement rider or negative surcharge in the amount of

1 (\$1.04) per ERC (\$1,278,253 / 34,290 ERCs / 36 months) be applied to each customer's
2 monthly bill for a period of thirty-six (36) months or until such time when the regulatory
3 liability amount reaches zero. ORS recommends PUI submit a report to the Commission
4 on a quarterly basis with copy to ORS that illustrates both the cumulative amount of TCJA
5 decrement rider or negative surcharge for the quarter and the remaining balance of the
6 regulatory liability.

7 **Q. WILL YOU UPDATE YOUR TESTIMONY BASED ON INFORMATION THAT**
8 **BECOMES AVAILABLE?**

9 **A.** Yes. ORS reserves the right to revise its recommendations via supplemental
10 testimony should new information not previously provided by the Company, or other
11 sources become available.

12 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

13 **A.** Yes, it does.



ORS BUSINESS OFFICE COMPLIANCE REVIEW: Sewer Company

Utility: Palmetto Utilities, Inc.
 Inspector(s): Kyle Maurer, Daniel Hunnell, Anthony Sandonato
 Office: 1710 Woodcreek Farms Rd, Elgin, SC
 Utility Type: Sewer
 Date: March 16, 2020
 Company Representative: Bryan Stone, Adam Delk, Andrena Powell-Baker

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
1	All records and reports available for examination in accordance with R.103-510.	X		
2	Complaint records maintained in accordance with R.103-516.	X		
3	Utility's rates, its rules and regulations, and its up-to-date maps and plans available for public inspection in accordance with R.103-530.	X		
4	Established procedures to assure that every customer making a complaint is made aware that the utility is under the jurisdiction of the South Carolina Public Service Commission and that the customer has the right to register the complaint in accordance with R.103-530.	X		
5	Deposits charged within the limits established by R.103-531.	X		No deposits charged
6	Timely and accurate bills being rendered to customers in accordance with R.103-532.	X		
7	Bill forms in accordance with R.103-532.	X		
8	Adjustments of bills handled in accordance with R.103-533.	X		
9	Policy for customer denial or discontinuance of service in accordance with R.103-535.	X		
10	Notices sent to customers prior to termination in accordance with Rule R.103-535.	X		
11	Notices filed with the Commission of any violation of PSC or DHEC rules which affect service provided to its customers in accordance with rule R.103-514.C.	X		

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
12	Utility has adequate means (telephone, etc.) whereby each customer can contact the water and/or wastewater utility at all hours in case of emergency or unscheduled interruptions or service in accordance with R.103-530.	X		
13	Records maintained of any condition resulting in any interruption of service affecting its entire system or major division, including a statement of time, duration, and cause of such an interruption in accordance with R.103-514.	X		
14	Utility advised the Commission, in accordance with Rule 103-512 of the name, title, address and telephone number of the person who should be contacted in connection with general management duties, customer relations, engineering operations, and emergencies during non-office hours.	X		
15	Utility verified the maps on file with the Commission include all the service area of the company.	X		
16	Utility has a current performance bond on file with the Commission.	X		
17	Utility maintains a documented Safety Program.	X		
18	Utility maintains a documented Emergency Response plan.	X		
19	Utility maintains a documented Preventative Maintenance plan.	X		
20	Utility submitted a current Annual Report.	X		
21	Utility is in compliance with Gross Receipts reporting and payment regulations.	X		



ORS WASTEWATER SYSTEM INSPECTION REPORT

Inspection Overview

Date Inspected:	March 16, 2020
Inspector(s) Name:	Kyle Maurer, Daniel Hunnell, Anthony Sandonato
Docket Number:	2019-281-S
Utility Name:	Palmetto Utilities, Inc.
Utility Representative:	Adam Delk
Number of Customers:	27,905 (33,996 ERCs)
System Type (collection, force main, lagoon, etc):	Collection, Biological Treatment
Location of System:	Elgin, SC
Location of Utility Office:	1710 Woodcreek Farms Rd, Elgin, SC
Treatment Type:	Biological
Permit #:	SC0043451
Last SC DHEC Compliance Rating:	Satisfactory
Frequency checked by WWTF Operator:	Daily
Drinking Water Provider:	City of Columbia, Town of Winnsboro, Lugoff-Elgin Water District, individual wells.

	System Components Inspected	Compliance			Comments
		Yes	No	N/A	
1	Chlorinator	X			UV disinfection treatment used for disinfection – also feeding chlorine at this time to treat for algae growth within the effluent flow equalization basins prior to UV disinfection. Use of chlorine also requires dichlorination prior to discharge.
2	Other chemicals in use	X			
3	Aerators present	X			
4	Plant fenced and locked	X			
5	Warning Signs Visible	X			
6	Fence in good condition	X			
7	Dikes in good condition	X			
8	Odor non-existent or limited	X			
9	Grass mowed	X			
10	Duckweed/Algae acceptable	X			
11	Grease build-up acceptable	X			
12	Plant free of debris	X			
13	Effluent Color acceptable	X			
14	Lift Stations present	X			72; 5 with charcoal filters for odor control
15	Failure Warning System adequate	X			
16	Electric Wiring adequate	X			
17	System free of leaks	X			
18	System free of overflows	X			
19	Access road adequate	X			
20	Ability for service area to expand	X			

Office of Regulatory Staff
ORS Calculated Revenues
Palmetto Utilities, Inc.
Docket No. 2019-281-S

EXHIBIT DPH-2

Calculated Total Company Test Year Revenue Overview

Customer Classification	Equivalent Residential Connection (ERC) ¹	Monthly Rate ²	Test Year Calculated Revenues
Residential	356,410	\$52.10	\$18,568,972
Commercial & Industrial	51,538	\$52.10	\$2,685,146
Dump Station ⁴	683	\$52.10	\$35,579
Sewer Service Revenue	408,631		\$21,289,697
Misc. Other Revenue ⁵			\$1,157,066
Total Company Sewer Operating Revenues			\$22,446,763

Calculated Total Company Test Year Revenue Using the Actual Number of ERCs as of 02/29/2020

Customer Classification	Equivalent Residential Connection (ERC) ³	Monthly Rate ²	ORS Calculated Revenues @ 02/29/2020	Increase (%)	Company Test Year Calculated Revenues	ORS Difference
Residential	359,352	\$52.10	\$18,722,240	0.82%	\$18,568,972	\$153,268
Commercial & Industrial	52,128	\$52.10	\$2,715,869	1.13%	\$2,685,146	\$30,723
Dump Station ⁴	683	\$52.10	\$35,579	0.00%	\$35,579	\$0
Sewer Service Revenue			\$21,473,688		\$21,289,697	\$183,991
Misc. Other Revenue ⁵			\$1,095,185		\$1,157,066	-\$61,881
Total Sewer Operating Revenues			\$22,568,873		\$22,446,763	\$122,110

ORS Calculated Revenue PUI Total Company After ORS Adjustments

Customer Classification	Equivalent Residential Connection (ERC) ³	Monthly Rate	ORS Calculated Revenues After ORS Adjustments	Increase (%)	ORS Calculated Revenues @ 02/29/2020	ORS Adjustment
Residential	359,352	\$54.49	19,582,038	4.39%	\$18,722,240	\$859,798
Commercial & Industrial	52,128	\$54.49	2,840,592	4.39%	\$2,715,869	\$124,723
Dump Station ⁴	683	\$54.49	37,212	4.39%	\$35,579	\$1,633
Sewer Service Revenue			\$22,459,843		\$21,473,688	\$986,155
Misc. Other Revenue ⁵			\$1,099,030		\$1,095,185	\$3,845
Total Sewer Operating Revenues			\$23,558,873		\$22,568,873	\$990,000

1 Exhibit B; Schedule C of Company Application
2 Exhibit B; Schedule C of Company Application
3 Exhibit DPH-6

Office of Regulatory Staff
Pro Forma Revenue @ Company Rates
Palmetto Utilities, Inc.
Docket No. 2019-281-S

Calculated Total Company Test Year Revenue Overview

Customer Classification		Equivalent Residential Connection (ERC) ¹	Monthly Rate ²	Test Year Calculated Revenues
Residential		356,410	\$52.10	\$18,568,972
Commercial & Industrial		51,538	\$52.10	\$2,685,146
Dump Station ⁴		683	\$52.10	\$35,579
Sewer Service Revenue		408,631		\$21,289,697
Misc. Other Revenues ⁵				\$1,157,066
Total Company Sewer Operating Revenues				\$22,446,763

Calculated Total Company Test Year Revenue Using the Actual Number of ERCs as of 02/29/2020

Customer Classification		Equivalent Residential Connection (ERC) ³	Monthly Rate ²	ORS Proposed Calculated Revenues	Increase (%)	Company Test Year Calculated Revenues	Difference
Residential		359,352	\$52.10	\$18,722,240	0.82%	\$18,568,972	\$153,268
Commercial & Industrial		52,128	\$52.10	\$2,715,869	1.13%	\$2,685,146	\$30,723
Dump Station		683	\$52.10	\$35,579	0.00%	\$35,579	\$0
Sewer Service Revenue				\$21,473,688		\$21,289,697	\$183,991
Misc. Other Revenue				\$1,095,185		\$1,157,066	-\$61,881
Total Sewer Operating Revenues				\$22,568,873		\$22,446,763	\$122,110

ORS Total Company Calculated Revenue @ PUI Proposed Rates

Customer Classification		Equivalent Residential Connection (ERC) ³	Monthly Rate ⁴	ORS Proposed Calculated Revenues	Increase (%)	Company Proposed Calculated Revenues	Difference
Residential		359,352	\$66.62	\$23,940,031	21.80%	\$23,744,047	\$195,984
Commercial & Industrial		52,128	\$66.62	\$3,472,767	21.80%	\$3,433,483	\$39,284
Dump Station		683	\$66.62	\$45,501	21.80%	\$45,494	\$7
Sewer Service Revenue		412,163		\$27,458,299		\$27,223,025	\$235,274
Misc. Other Revenue				\$1,172,943		\$1,157,066	\$15,877
Total Sewer Operating Revenues				\$28,631,242		\$28,380,091	\$251,151

1 Exhibit B; Schedule C of Company Application
2 Exhibit B; Schedule C of Company Application
3 Exhibit DPH-6
4 Exhibit B; Schedule C of Company Application

Office of Regulatory Staff**EXHIBIT DPH-4****Miscellaneous Revenues****Palmetto Utilities, Inc.*****Docket No. 2019-281-S*****ORS Calculated Total Company Test Year Revenue Using the Actual Number of ERCs as of 02/29/2020**

Misc Revenue ¹	Account	Per Books	After Increase	Increase Total
Rent From Other Wastewater Property	534	\$62,978	(\$62,978)	\$0
Late Fees	536	112,564	1,097	113,661
Notification Fees	536	437,775	-	437,775
Customer Account Charges	536	75,445	-	75,445
Reconnect Fees	536	57,640	-	57,640
Returned Check Fees	536	17,830	-	17,830
Tap Fees (non-CIAC portion)	536	392,834	-	392,834
		\$ 1,157,066	\$ (61,881)	\$ 1,095,185

ORS Calculated MISC Revenue PUI Total Company After ORS Adjustments

Misc Revenue ¹	Account	Per Books	After Increase	Increase Total
	534	\$62,978	(\$62,978)	\$0
Late Fees	536	112,564	4,942	117,506
Notification Fees	536	437,775	-	437,775
Customer Account Charges	536	75,445	-	75,445
Reconnect Fees	536	57,640	-	57,640
Returned Check Fees	536	17,830	-	17,830
Tap Fees (non-CIAC portion)	536	392,834	-	392,834
		\$ 1,157,066	\$ (58,036)	\$ 1,099,030

Office of Regulatory Staff
Customer Growth
Palmetto Utilities Inc.
Docket No. 2019-281-S

EXHIBIT DPH-5

Line No.	Date	Total No. of Customers
1		
2	Single Family Residential	
3	2/28/2019 ¹	26,699
4	2/29/2020 ²	27,437
5	Average	27,068
6	Growth Factor	1.363%
7		
8	Commercial & Industrial	
9	2/28/2019 ¹	558
10	2/29/2020 ²	585
11	Average	572
12	Growth Factor	2.362%
13		
14		
15	Multifamily Residential	
16	2/28/2019 ¹	58
17	2/29/2020 ²	60
18	Average	59
19	Growth Factor	1.695%
20		
21		
22	Total	
23	2/28/2019 ¹	27,315
24	2/29/2020 ²	28,082
25	Average	27,699
26	Growth Factor	1.385%

1 From Company Response to AIR 2.09

2 From Company Response to Water Operations Request No. 23

Office of the Regulatory Staff
Number of Customers and Number of ERCs as of February 29, 2020
Palmetto Utilities Inc.
Docket No. 2019-281-S

Line No.	Date	PUI		PRC		Total	
		No.	ERC's	Annualized ERC's	No.	ERC's	Annualized ERC's
1	Single Family Residential	15,317	15,222	182,664	12,120	12,084	145,008
2		2/29/2020 ¹					
3							
4	Commercial & Industrial						
5		411	3,417	41,004	174	927	11,124
6							
7	Multifamily Residential						
8		20	2,296	27,552	40	344	4,128
9							
10	Total	15,748	20,935	251,220	12,334	13,355	160,260

1 From Company Response to Water Operations Request No. 23

Office of Regulatory Staff
Response to ORS Water Request No. 11
Palmetto Utilities Inc.
Docket No. 2019-281-S

21. Utility Plant - Purchased or Sold

A. When utility plant constituting an operating unit or system is acquired by purchase, merger, consolidation, liquidation, or otherwise, the costs of acquisition, including expenses incidental thereto properly includible in utility plant, shall be charged to account 104 - Utility Plant Purchased or Sold.

B. The accounting for the acquisition shall then be completed as follows:

(1) The original cost of plant, estimated if not known, shall be credited to account 104 - Utility Plant Purchased or Sold, and concurrently charged to the appropriate utility plant in service accounts and account 102 - Utility Plant Leased to Others and account 103 - Property Held for Future Use, and account 105 - Construction Work in Progress, as appropriate.

(2) The requirements for accumulated depreciation and amortization applicable to the original cost of the properties purchased, if required by the Commission to be recorded by the accounting utility determined with due regard to operating practices of the purchaser and his plans regarding such property, and giving consideration also to the effect on such ACCOUNTING INSTRUCTIONS 26 requirements of any rehabilitation expenditures (see Paragraph D), shall be charged to account 104 - Utility Plant Purchased or Sold, and concurrently credited to the appropriate account for accumulated depreciation or amortization.

(3) The cost to the utility of any property includible in account 121 - Nonutility Property, shall be transferred thereto.

(4) The amount of contributions in aid of construction applicable to the property acquired, and which the purchaser may be required to record, shall be charged to account 104 - Utility Plant Purchased or Sold, and concurrently credited to account 271 - Contributions in Aid of Construction.

(5) The amount of accumulated amortization applicable to contributed property, and which the purchaser may be required to record, shall be credited to account 104 - Utility Plant Purchased or Sold and concurrently debited to account 272 - Accumulated Amortization of Contributions in Aid of Construction, according to the regulatory treatment of the Commission.

(6) The amount remaining in account 104 - Utility Plant Purchased or Sold, shall then be closed to account 114 - Utility Plant Acquisition Adjustments.

C. The following journal entries illustrate how the various transactions are to be recorded.

Office of Regulatory Staff
Response to ORS Water Request No. 11
Palmetto Utilities Inc.
Docket No. 2019-281-S

(1) 104 Utility Plant Purchased or Sold Debit 131 Cash Credit 231 Accounts Payable Credit 232 Notes Payable Credit To record acquisition of utility plant by purchase, merger, consideration, liquidation, etc. Credit should be to the appropriate account.

(2) 101 Utility Plant in Service Debit 102 Utility Plant Leased to Others Debit 103 Property Held for Future Use Debit 105 Construction Work in Progress Debit 104 Utility Plant Purchased or Sold Credit To record the original cost of the acquired utility plant to the appropriate plant account. Estimated cost may be used if the original cost is not known. Plant applicable to Account 101 should be recorded in the appropriate plant account, Accounts 301 to 348. ACCOUNTING INSTRUCTIONS 27

(3) 104 Utility Plant Purchased or Sold Debit 108 Accumulated Depreciation Credit 110 Accumulated Amortization Credit To record the accumulated depreciation and amortization applicable to the original cost of the properties purchased.

(4) 121 Nonutility Property Debit 104 Utility Plant Purchased or Sold Credit To transfer any property includible as nonutility property to the appropriate account.

(5) 104 Utility Plant Purchased or Sold Debit 271 Contributions in Aid of Construction Credit To record any amounts of contributions in aid of construction applicable to the property acquired.

(6) 272 Accumulated Amortization of Contributions in Aid of Construction Debit 104 Utility Plant Purchased or Sold Credit To record the amount of accumulated amortization applicable to contributed property acquired.

(7) 104 Utility Plant Purchased or Sold Debit 114 Utility Plant Acquisition Adjustments Credit To close a credit balance in Account 104 to Account 114. This would occur when the original cost of the plant acquired exceeds the acquisition price and accumulated depreciation and amortization. 114 Utility Plant Acquisition Adjustments Debit 104 Utility Plant Purchased or Sold Credit To close a debit balance in Account 104 to Account 114. This would occur when the acquisition price and accumulated depreciation and amortization exceeds the original cost of the plant acquired.

(8) 406 Amortization of Utility Plant Acquisition Adjustment Debit 115 Accumulated Amortization of Utility Plant Acquisition Adjustments Credit ACCOUNTING INSTRUCTIONS 28 To record the annual amortization of the utility plant acquisition adjustment. This entry is used when Account 114 has a debit balance. This entry is reversed if the Account 114 balance is a credit.

D. If property acquired in the purchase of an operating unit or system is in such physical condition when acquired that it is necessary to substantially rehabilitate it in order to bring the

Office of Regulatory Staff
Response to ORS Water Request No. 11
Palmetto Utilities Inc.
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property up to the standards of the utility, the cost of such work, except replacements, shall be accounted for as a part of the purchase price of the property.

E. When any property acquired as an operating unit or system includes duplicate or other plant, which will be retired by the accounting utility in the reconstruction of the acquired property or its consolidation with previously owned property, the accounting for such property shall be presented to the Commission.

F. In connection with the acquisition of utility plant, the utility shall procure, if possible, all existing records relating to the property acquired, or certified copies thereof, and shall preserve such records in conformity with regulations or practices governing the preservation of records of its own construction.

G. When utility plant constituting an operating unit or system is sold, conveyed, or transferred to another by sale, merger, consolidation, or otherwise, the book cost of the property sold or transferred to another shall be credited to the appropriate utility plant accounts, including amounts carried in account 114 - Utility Plant Acquisition Adjustments, and the amounts (estimated if not known) carried with respect thereto in the accounts for accumulated depreciation and amortization and in account 252 - Advances for Construction, and account 271 - Contributions in Aid of Construction, shall be charged to such accounts and the contra entries made to account 104 - Utility Plant Purchased or Sold. Unless otherwise ordered by the Commission, the difference, if any between

(a) the net amount of debits and credits and

(b) the consideration received for the property (less commissions and other expenses of making the sale) shall be included in account 414 - Gains (Losses) From Disposition of Utility Property (See account 104 - Utility Plant Purchased or Sold).

Note: --In cases where existing utilities merge or consolidate because of financial or operating reasons or statutory requirements rather than as a means of transferring title of purchased properties to a new owner, the accounts of the constituent utilities, with the approval of the Commission, may be combined. In the event original cost has not been determined, the resulting utility shall proceed to determine such cost as outlined herein.